Shipper Roundtable #10 | Issues Response Paper

March 2020

Overview

This short paper provides a high level summary of and response to key issues raised at Shipper Roundtable #10, held on Wednesday 25 March. It has been prepared in response to requests by Shippers for additional information on certain matters at the meeting and is in additional to the minutes prepared by KPMG.

Shippers noted at the meeting that they are focusing on areas where they would like further information, rather than those areas whereby they either support and/or understand our proposal.

Topic	Issue or Request for Further Information	AGIG Response
Opex and capex	A Shipper questioned whether planned infrastructure investments related to potential future bi-directional flow of gas on the pipeline were captured in the submission (a reference was made to pg 432 of attachment 8.5 – Capex Business Cases).	Written response provided below on future change in direction of flows and impacts on tariffs/contracts for Shippers Action 1
Asset Base	A Shipper questioned the methodology per the ACIL Allen Report (Attachment 9.3) related to the narrow price range considered for natural gas relative to the broader price range of alternative/competitive fuel sources. Also questioned was whether there may be other industry references that provided greater granularity of forecasts that could be considered. A Shipper questioned the changes made to the re-classification of certain asset types (specifically Inlet Filters and Scrubbers from 30 to 10 yrs) and sought confirmation of the methodology and approach. Generators considered as 'other' was also queried.	Written response provided below to address data sources used for future scenarios, including gas prices. Action 2 Written response provided below to asset reclassification for specific asset types. Action 3

Topic	Issue or Request for Further Information	AGIG Response
Demand	A Shipper requested additional clarity on the process followed to develop our demand forecasts and if the assumptions should be changed in light of current events.	Written response provided below regarding the demand forecast calculations Action 4
Revenue and Pricing	A Shipper noted the proposed capacity/commodity tariff split of 94/6 and questioned whether other items that were considered variable (related to maintenance) should be used to inform the split.	Written response provided below regarding the proposed variable split of opex Action 5

Action 1: Flow direction and impact on tariffs

Our demand forecasts are required to be arrived at on a reasonable basis and to represent the best forecast or estimate possible in the circumstances. Our demand forecasts and assumed pipeline use for 2021 to 2025 period are based on actual information provided by our Shippers, with a focus on current contractual arrangements in place.

The DBNGP already has bi-directional capabilities, in sections of the pipeline, which are used to manage flows from upstream producers in ad hoc instances when operationally required to meet our obligations to deliver each Shipper's contracted capacity. AGIG has not proposed any forecast capex in AA5 specifically related to bi-directional flow of the pipeline.

The re-wheeling of Compressor Station 1 (CS1) is not related to enabling bi-directional flow, but is required to protect pipeline integrity and improve efficiency under lower throughput conditions, which have been observed since 2010. AGIG refers readers to Capex DBP29, page 432.

AGIG confirms that proposed works at CS1 will not change the custody transfer point for the Varanus Island inlet. As such, no change will be made to the pipeline description map and therefore no change on distance factor or direction applied to tariffs for that inlet.

In terms of the tariff impact of bi-directional flows, the regulated tariffs are the same for full haul, part haul and back haul on a per km basis. In other words, they do not relate to physical flows but instead are a fair and equitable way of dividing up the regulated revenues by Shipper. Therefore, there would be no reason to change the tariff principles just because physical flows change.

Action 2: Data sources in future scenario planning

ACIL Allen in its analysis sought to use gas price forecasts from a reputable third party source. Consistent with this, ACIL Allen used forecasts produced by the International Energy Agency and the Australian Energy Market Operator (AEMO) for WA gas prices.

Action 3: Reclassification for specific asset types

The comment relates to a comment by Incenta (at pp, 2 and 11) that some assets from the Stage 5B expansion (specifically some generators and some inlet scrubbers) were put into the “Other” category and not “Compression” as per past practice. Incenta noted this, whilst not an issue when both “Compression” and “Other” both had a life of 30 years, it may be an issue if the “Other” category was reduced to 10 years.

In response, we noted on pg. 5 of Attachment 9.1 of our Final Plan as follows:

> Note that we have not shifted assets between existing categories, from Pipelines to Compression, say. This could obviously be done as a comprehensive audit of all assets, but doing so would effectively undo and second-guess previous regulatory decisions. We have only moved assets from existing categories to new categories which were not available for the ERA to choose in previous decisions

We therefore did not consider that it was appropriate to re-assess decisions the ERA had made in the past (in this case during AA3) where asset categories existed at the time of the decision, but rather to focus only on changes where new asset categories have been proposed to apply.

Action 4 Demand forecasting

Given the confidential nature of Shipper information provided to our business, Shippers requested that we engaged KPMG in August 2019 to provide an assurance that our demand forecast was based on the latest actual information available, including the advice being received from Shippers. This report was made available to all Shippers and was submitted to the ERA as part of our Final Plan. This was considered an effective way to provide assurance to Shippers that this confidential information underpinned our demand forecast.

We also engaged ACIL Allen to compare our demand forecast against AEMO’s ESOO and GSOO, which reports were provided to the ERA on a confidential basis as it contains shipper specific information. The report was provided as an attachment to our Final Plan (which addressed the issues raised by Shippers).

Action 5: Proposed 94/6 split

We have followed the approach the ERA has used in respect of the fixed and variable split of prices. This aligns with our objective of developing a plan capable of acceptance. This is discussed at section 13.4 of our Final Plan, page 123.

It may be possible to include other items, such as the turbine overhauls, into the variable cost bucket, but this would be a decision made by the ERA.

To provide context around the impact of such a change, we have modelled the specific example of turbine overhauls which total $25 million in opex over the period (see cell AH17 in sheet ‘Capex calcs’, Attachment 8.6 Capex Forecast Model). Including this as part of the variable charge would change the split from 94/6 to 92/8, raising the total tariff (fixed plus variable per GJ) slightly as the variable cost is divided by throughput, which is lower than contracted capacity.